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SUBJECT: PRODI'S RESIGNATION AND NEXT STEPS FOR ITALY

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Classified By: Political Minister Counselor David Pearce, for reasons 1
.4 (b)(d).

¶1. (C/NF) President Napolitano is consulting with political leaders to determine the government's viability after it lost a key foreign policy vote in the Senate. PM Prodi tendered his resignation after the balloting, which the President accepted "with reserve". The Senate loss followed a warning by FM D'Alema to far left coalition members that the government's should step down if it could not sustain its own program. The way forward is unclear. Napolitano is expected to conduct political consultations at least to the end of the week, and possibly beyond, before making any decisions. He could give Prodi another chance to prove his Senate majority in a confidence vote that would enable the government to limp along until the next crisis. Or he could turn to someone else. One encouraging element, however, is that most of the major players want to move in the direction of greater stability in decision making. If so, that would be bad news for the far left, and good news for us. End summary.

Government Foreign Policy Motion Fails, PM Resigns

¶2. (U) On February 21, following a 158-160 defeat in the Senate of a motion on his government's foreign policy (Reftel), PM Romano Prodi immediately offered his resignation to President Napolitano. Napolitano accepted Prodi's resignation "with reserve", i.e. provisionally, but asked him to stay on as caretaker. Napolitano February 22 began a series of constitutionally mandated consultations with political leaders to determine the state of the government's majority in Parliament. Napolitano was expected to conduct the consultations at least to the end of the week, and possibly beyond, before making any decisions.

¶3. (C/NF) The nine-party Prodi coalition government had a one-seat majority in the Senate, and it had been clear for months that the far-left minority was exerting pressure beyond its numbers on both domestic and foreign policy. Prodi and FM D'Alema (as leader of DS, the largest party in the coalition) have struggled to appease or contain the far-left; this vote was D'Alema's attempt to force the far-left to support the government's foreign policy. In fact, the far-left party leaders (particularly

Refounded Communist leader Bertinotti and Communist Party of Italy's Diliberto) did support the government. But they could not control their "dissidents", two of whom abstained.

14. (C/NF) Key issues in the foreign policy debate during the runup to the vote included funding the continued Italian force presence in Afghanistan and the government's approval of a Berlusconi-era decision in favor of a project to build additional facilities for the U.S. Army at Dal Molin airfield in Vicenza. On both counts the Prodi government faced strident opposition from far-left members of its coalition. Front-page coverage of anti-Dal Molin demonstrations and the Ambassador's editorial (along with five other envoys) in favor of a continued strong GOI mission in Afghanistan added to the mix. Both Senator-for-life Giulio Andreotti (a former Christian Democrat PM believed to reflect present Vatican views) and Senator Sergio Pininfarina (identified with the center right and big business) also abstained, dealing a surprise blow to the government. The outcome led some discerning analysts to espouse a U.S.-Vatican-industrialists conspiracy.

15. (C/NF) In recent weeks, President Napolitano, a member of FM D'Alema's Democrats of the Left (DS) party, had publicly suggested that the government must prove it could be self-sufficient (i.e., not need the votes of the opposition) in conducting foreign policy. At the same time, D'Alema repeatedly signaled his impatience with far left parliamentary indiscipline. Before he left for his recent Asia trip, D'Alema said "he hoped there would be a government here when he returned." And just before the vote he directly challenged the far-left, declaring that if the government could not sustain its own motion on foreign policy, it should "go home."

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Options

16. (C/NF) There are a number of possible outcomes to the president's consultations, which we have ranked from most to least likely:

(1) Napolitano sends Prodi back to the Senate to try again to win a majority. This would require calling for a general confidence vote, but yesterday's vote seriously called into question the government's ability to control both party dissidents and senators for life. The government might squeak by, but it would be seriously weakened, and vulnerable to another crisis.

(2) Napolitano gives Prodi another mandate to re-form his government. Success of this scenario would require Prodi to convince other centrist parties, like the Christian Democratic Union (UDC), or individuals like independent centrist Marco Follini, to expand the coalition's power in the Senate. But given the already weakened state of the coalition, it is not clear why others would want to jump on a sinking ship.

(3) Napolitano gives a mandate to another member of the center-left coalition. This could be D'Alema's chance to supersede Prodi, but he would face the same electoral math in the Senate where the coalition simply does not have a dependable majority. D'Alema also faces anger from some center-left colleagues who blame him for forcing this crisis. Still, Berlusconi has made it clear he could work with D'Alema, and there already are rumors that the center-right could accept a D'Alema government of some kind.

(4) Napolitano gives a mandate to former PMs Amato or

Dini, or Senate President Marini, to form a technical/institutional government. This would require support of the big parties (e.g., center-left DS and Daisy, as well as center-right Forza Italia and Alleanza Nazionale). This likely would be a short-lived government whose mandate would be to tackle a few key reforms like the electoral law, and to prepare for new elections. Historically, technical governments have degenerated in partisan feuding, however, and there is no clear agreement yet between the center-left and center-right on the shape of a new electoral law.

(5) Napolitano calls for new elections, either for the Senate only or for the entire Parliament. A Senate-only vote is unlikely. If general elections were held today, the center-right would probably win, which is therefore a powerful incentive to the center-left parties to try to make other options work instead. And, given Napolitano's own center-left background, this outcome is probably likely only if all else fails.

Comment

¶7. (C/NF) FM D'Alema was taunting the far left before the February 21 foreign policy vote to either step in line with the government or get ready to step down from power. While he lost the vote, he went down defending a rational foreign policy and remains the strongest center-left leader.

Analysts

here are divided over where Napolitano is most likely to come out.

Many think he will give PM Prodi another chance to put together a coherent governing majority. Others think the real problem is the electoral law, and the only real fix to government stasis is to reform it, which argues for an interim technical government with outside support from the major parties.

¶8. (C/NF) Since there are so many possible outcomes, it is too early to hazard a guess on how the outcome will affect various U.S. equities. One encouraging element, however, is that most of the major players here seem to want to move in the direction of greater stability in decision making. If so, that should be bad news for the far left, and good news for us.
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